



**Umkhanyakude District Municipality and its Municipal entity
Consolidated Annual Financial statements
for the year ended 30 June 2018**

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	DC27 - Umkhanyakude District Municipality
Mayoral committee	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C. (Deputy Mayor) Cllr Msane MS (Speaker) Cllr Moodley G.P. (Exco Member) Cllr Ngcobo M.S. (Exco Member) Cllr Zungu M.C. (Exco Member)
Councillors	Cllr Gina MA Cllr Gumede KS Cllr Gumede RH Cllr Gumede MS Cllr Gumede VE Cllr Hlabisa VF Cllr Khoza SJ Cllr Khumalo CT Cllr Khumalo NG Cllr Mabika DP Cllr Madlopha PB Cllr Mathenjwa BS Cllr Mdaka SF Cllr Mhlongo ZM Cllr Mthembu MJ Cllr Mthethwa N.R Cllr Mthethwa NS Cllr Mthethwa SP Cllr Myeni SR Cllr Mzinyane SW Cllr Ngubane JG Cllr Shezi SJ Cllr Sithole MB Cllr Zulu NR Cllr Zuma NE
Grading of local authority	Grade 4
Chief Finance Officer (CFO)	Msomi N.P (Acting CFO)
Accounting Officer	Dludla N.T
Registered office	Harlingen No. 13433 Kingfisher Road Mkuze 3965
Postal address	P.O. Box 449 Mkuze
Primary Bankers	ABSA
Auditors	Auditor-General South Africa Registered Auditors

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The reports and statements set out below comprise the consolidated annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements and was given unrestricted access to all financial records and related data.

The consolidated annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The consolidated annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is wholly dependent on the grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The consolidated annual financial statements are prepared on the basis that the municipality is a going concern and that the Umkhanyakude District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the economic entity's consolidated annual financial statements. The consolidated annual financial statements have been examined by the economic entity's external auditors and their report is presented on page 4.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The consolidated annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 28 September 2018 and were signed on its behalf by:



Dlodla N. T.
Accounting Officer

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2018	2017	2018	2017
Assets					
Current Assets					
Inventories	3	121 121 909	124 845 735	121 121 909	124 845 735
Receivables from exchange transactions	4	45 461 654	63 797 512	43 685 489	55 864 451
Other receivables from exchange transactions	5	6 685 279	8 554 956	6 685 279	8 554 956
VAT receivable	6	36 695 943	62 977 240	32 476 454	62 073 305
Cash and cash equivalents	7	64 828 491	36 749 698	62 295 548	34 577 736
		274 793 276	296 925 141	266 264 679	285 916 183
Non-Current Assets					
Property, plant and equipment	8	1 968 051 222	1 831 106 660	1 939 461 250	1 826 356 214
Intangible assets	9	192 350	301 656	192 350	301 656
Heritage assets	10	586 000	586 000	586 000	586 000
		1 968 829 572	1 831 994 316	1 940 239 600	1 827 243 870
Total Assets		2 243 622 848	2 128 919 457	2 206 504 279	2 113 160 053
Liabilities					
Current Liabilities					
Payables from exchange transactions	11	215 753 034	322 669 989	216 851 320	320 920 314
Consumer deposits	12	1 396 340	1 377 510	1 396 340	1 377 510
Unspent conditional grants and receipts	13	26 361 249	72 995 711	24 930 430	64 576 002
Current portion of defined benefit plan obligation	14	1 296 000	534 000	1 296 000	534 000
Current portion of loans	15	986 127	1 003 312	986 127	1 003 312
		245 792 750	398 580 522	245 460 217	388 411 138
Non-Current Liabilities					
Other financial liabilities	16	22 154 396	-	22 154 396	-
Defined benefit plan obligation	14	7 027 000	6 512 000	7 027 000	6 512 000
Non-current loans	15	5 355 931	6 207 357	5 355 931	6 207 357
		34 537 327	12 719 357	34 537 327	12 719 357
Total Liabilities		280 330 077	411 299 879	279 997 544	401 130 495
Net Assets		1 963 292 771	1 717 619 578	1 926 506 735	1 712 029 558
Accumulated surplus		1 963 292 771	1 717 619 580	1 926 506 737	1 712 029 560

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Statement of Financial Performance

Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2018	2017	2018	2017
Revenue					
Revenue from exchange transactions					
Service charges	17	30 788 710	19 541 684	30 788 710	19 541 684
Rental of facilities and equipment	18	208 830	56 310	208 830	56 310
Interest income	19	6 958 166	5 305 018	6 941 630	5 115 213
Other income	20	7 709 261	16 245 792	7 624 755	16 048 647
Actuarial gains	14	-	124 705	-	124 705
Total revenue from exchange transactions		45 664 967	41 273 509	45 563 925	40 886 559
Revenue from non-exchange transactions					
Government grants & subsidies	21	672 862 809	556 436 934	636 585 534	527 566 641
Total revenue		718 527 776	597 710 443	682 149 459	568 453 200
Expenditure					
Employee related costs	22	(152 638 288)	(140 608 444)	(145 745 160)	(133 969 150)
Remuneration of councillors	23	(7 207 291)	(6 874 314)	(7 207 291)	(6 874 314)
Depreciation amortisation and impairment	24	(75 299 283)	(37 538 624)	(74 992 988)	(37 378 520)
Finance costs	25	(2 114 582)	(1 423 952)	(2 024 066)	(1 339 122)
Debt Impairment	26	(29 957 705)	(5 262 800)	(29 957 705)	(5 262 800)
Repairs and maintenance	27	(34 519 728)	(75 228 251)	(34 510 237)	(75 227 560)
Bulk purchases	28	(101 705 233)	(90 794 066)	(101 705 233)	(90 794 066)
Contracted services	29	(44 689 137)	(51 086 005)	(37 179 286)	(27 923 751)
General Expenses	30	(24 723 339)	(52 335 532)	(34 350 317)	(56 061 897)
Total expenditure		(472 854 586)	(461 151 988)	(467 672 283)	(434 831 180)
Operating surplus		245 673 190	136 558 455	214 477 176	133 622 020
Surplus for the year		245 673 190	136 558 455	214 477 176	133 622 020

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Opening balance as previously reported	1 621 376 617	1 621 376 617
Adjustments - Note 33		
Correction of errors	(40 315 492)	(40 315 492)
Balance at 01 July 2016 as restated*	1 581 061 125	1 581 061 125
Changes in net assets		
Surplus for the year	136 558 455	136 558 455
Total changes	136 558 455	136 558 455
Balance at 01 July 2017	1 717 619 581	1 717 619 581
Changes in net assets		
Surplus for the year	245 673 190	245 673 190
Total changes	245 673 190	245 673 190
Balance at 30 June 2018	1 963 292 771	1 963 292 771
Controlling entity		
Opening balance as previously reported	1 618 768 041	1 618 768 041
Adjustments - Note 33		
Correction of errors	(40 360 501)	(40 360 501)
Balance at 01 July 2016 as restated*	1 578 407 540	1 578 407 540
Changes in net assets		
Surplus for the year	133 622 020	133 622 020
Total changes	133 622 020	133 622 020
Balance at 01 July 2017	1 712 029 561	1 712 029 561
Changes in net assets		
Surplus for the year	214 477 176	214 477 176
Total changes	214 477 176	214 477 176
Balance at 30 June 2018	1 926 506 737	1 926 506 737

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Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2018	2017	2018	2017
Cash flows from operating activities					
Receipts					
Sale of goods and services		21 036 541	16 064 408	14 879 645	16 648 983
Grants		626 972 778	602 467 237	596 277 747	565 848 000
Interest income		6 958 166	5 305 018	6 941 630	5 115 213
Other receipts		727 876	12 128 709	643 370	11 931 565
		655 695 361	635 965 372	618 742 392	599 543 761
Payments					
Employee costs		(159 993 541)	(147 482 759)	(152 952 451)	(140 843 464)
Suppliers		(265 325 680)	(273 899 562)	(260 011 117)	(245 353 077)
Finance costs		(1 401 979)	(780 626)	(1 311 463)	(695 796)
Taxes paid		-	(44 035)	-	-
		(426 721 200)	(422 206 982)	(414 275 031)	(386 892 337)
Net cash flows from operating activities	31	228 974 161	213 758 390	204 467 361	212 651 424
Cash flows from Investing activities					
Purchase of property, plant and equipment		(201 709 725)	(208 654 983)	(177 563 906)	(204 511 708)
Proceeds from sale of property, plant and equipment		1 662 532	-	1 662 532	-
Purchase of intangible assets	9	(2 699)	(23 218)	(2 699)	(23 218)
Net cash flows from investing activities		(200 049 892)	(208 678 201)	(175 904 073)	(204 534 926)
Cash flows from financing activities					
Repayment of non-current loans		(845 476)	(853 901)	(845 476)	(853 901)
Net increase/(decrease) in cash and cash equivalents		28 078 793	4 226 288	27 717 812	7 262 597
Cash and cash equivalents at the beginning of the year		36 749 698	32 523 410	34 577 736	27 315 139
Cash and cash equivalents at the end of the year	7	64 828 491	36 749 698	62 295 548	34 577 736

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Economic entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	35 669 000	(9 889 000)	25 780 000	30 788 710	5 008 710	
Rental of facilities and equipment	137 346	(55 127)	82 219	208 830	126 611	
Interest received	4 340 345	221 655	4 562 000	6 958 166	2 396 166	
Other income	12 258 633	(2 386 360)	9 872 273	7 709 261	(2 163 012)	
Total revenue from exchange transactions	52 405 324	(12 108 832)	40 296 492	45 664 967	5 368 476	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	366 972 254	(30 555 769)	336 416 485	672 862 809	336 446 324	
Total revenue	419 377 578	(42 664 601)	376 712 977	718 527 776	341 814 799	
Expenditure						
Employee Related Costs	(144 465 438)	(6 375 278)	(150 840 716)	(152 638 288)	(1 797 572)	
Remuneration of councillors	(8 940 305)	-	(8 940 305)	(7 207 291)	1 733 014	
Depreciation and amortisation	(45 223 462)	6 718 614	(38 504 848)	(75 299 283)	(36 794 435)	
Finance costs	(1 498 863)	557 708	(941 155)	(2 114 582)	(1 173 427)	
Debt Impairment	(18 027 524)	-	(18 027 524)	(29 957 705)	(11 930 181)	
Repairs and maintenance	(35 383 049)	3 876 185	(31 506 864)	(34 519 728)	(3 012 864)	
Bulk purchases	(89 912 229)	-	(89 912 229)	(101 705 233)	(11 793 004)	
Contracted Services	(32 859 289)	(13 193 669)	(46 052 958)	(44 689 137)	1 363 821	
Grants and subsidies	(10 000 000)	10 000 000	-	-	-	
General Expenses	(32 054 173)	(4 283 472)	(36 337 645)	(24 723 339)	11 614 306	
Total expenditure	(418 364 332)	(2 699 912)	(421 064 244)	(472 854 586)	(51 790 342)	
Surplus before taxation	1 013 246	(45 364 513)	(44 351 267)	245 673 190	290 024 457	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	1 013 246	(45 364 513)	(44 351 267)	245 673 190	290 024 457	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	136 923 807	-	136 923 807	121 121 909	(15 801 898)	
Receivables from exchange transactions	22 685 580	-	22 685 580	45 461 654	22 776 074	
Other receivables from exchange transactions	39 667 825	-	39 667 825	6 685 279	(32 982 546)	
VAT receivable	-	-	-	36 695 943	36 695 943	
Cash and cash equivalents	24 444 710	-	24 444 710	64 828 491	40 383 781	
	223 721 922	-	223 721 922	274 793 276	51 071 354	
Non-Current Assets						
Property, plant and equipment	1 724 953 537	-	1 724 953 537	1 968 051 224	243 097 687	
Intangible assets	365 000	-	365 000	192 350	(172 650)	
Heritage assets	586 000	-	586 000	586 000	-	
	1 725 904 537	-	1 725 904 537	1 968 829 574	242 925 037	
Total Assets	1 949 626 459	-	1 949 626 459	2 243 622 850	293 996 391	
Liabilities						
Current Liabilities						
Payables from exchange transactions	65 151 320	-	65 151 320	215 753 034	150 601 714	
Consumer deposits	-	-	-	1 396 340	1 396 340	
Unspent conditional grants and receipts	-	-	-	26 361 249	26 361 249	
Current portion of defined benefit obligation	-	-	-	1 296 000	1 296 000	
Current portion of loans	893 000	-	893 000	986 127	93 127	
	66 044 320	-	66 044 320	245 792 750	179 748 430	
Non-Current Liabilities						
Other financial liabilities	-	-	-	22 154 396	22 154 396	
Defined benefit obligation	-	-	-	7 027 000	7 027 000	
Non current loans	7 528 000	-	7 528 000	5 355 931	(2 172 069)	
	7 528 000	-	7 528 000	34 537 327	27 009 327	
Total Liabilities	73 572 320	-	73 572 320	280 330 077	206 757 757	
Net Assets	1 876 054 139	-	1 876 054 139	1 963 292 773	87 238 634	
Net Assets						
Reserves						
Accumulated surplus	1 876 054 139	-	1 876 054 139	1 963 292 772	87 238 633	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	34 504 456	(19 300 746)	15 203 710	21 036 541	5 832 831	
Grants	604 307 000	(17 999 704)	586 307 296	626 972 778	40 665 482	
Interest income	4 256 000	(1 890 970)	2 365 030	6 958 166	4 593 136	
Other receipts	12 189 457	60 930 935	73 120 392	727 876	(72 392 516)	
	655 256 913	21 739 515	676 996 428	655 695 361	(21 301 067)	
Payments						
Suppliers and Employee costs	(394 577 821)	-	(394 577 821)	(425 319 221)	(30 741 400)	
Finance costs	(1 498 863)	-	(1 498 863)	(1 401 979)	96 884	
	(396 076 684)	-	(396 076 684)	(426 721 200)	(30 644 516)	
Net cash flows from operating activities	259 180 229	21 739 515	280 919 744	228 974 161	(51 945 583)	
Purchase of property, plant and equipment	(257 964 500)	(29 109 575)	(287 074 075)	(201 709 725)	85 364 350	
Proceeds from sale of property, plant and equipment	-	1 200 000	1 200 000	1 662 532	462 532	
Purchase intangible assets	-	-	-	(2 699)	(2 699)	
Net cash flows from investing activities	(257 964 500)	(27 909 575)	(285 874 075)	(200 049 892)	85 824 183	
Cash flows from financing activities						
Repayment of non-current loans	(3 045 716)	1 560 604	(1 485 112)	(845 476)	639 636	
Movement in other liability 1	21 000	20 900	41 900	-	(41 900)	
Net cash flows from financing activities	(3 024 716)	1 581 504	(1 443 212)	(845 476)	597 736	
Net increase/(decrease) in cash and cash equivalents	(1 808 987)	(4 588 556)	(6 397 543)	28 078 793	34 476 336	
Cash and cash equivalents at the beginning of the year	22 316 710	12 309 000	34 625 710	36 749 698	2 123 988	
Cash and cash equivalents at the end of the year	20 507 723	7 720 444	28 228 167	64 828 491	36 600 324	

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Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these consolidated annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These consolidated annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

1.2 Going concern assumption

These consolidated annual financial statements have been prepared based on the expectation that the economic entity will continue to operate as a going concern for at least the next 12 months.

1.3 Consolidation

Basis of consolidation

The consolidated annual financial statements comprise the annual financial statements of Umkhanyakude District Municipality (Controlling entity) and Umhlosinga Development Agency (Municipal entity), which is controlled by the Municipality.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The consolidated annual financial statements of the controlling entity and its controlled entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Definitions:

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Controlling entity is an entity that has one or more controlled entities.

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Consolidated Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Impairment of assets.
Defined benefit obligations for long service awards.
Useful lives and residual values of property, plant, and equipment.
Water and electricity losses.

Trade and other receivables

The economic entity assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the economic entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from trade and other receivables.

Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations.

Taxation

The Municipality's entity, Umhlosinga Development Agency, is a registered tax payer for income tax purposes.

Amounts included in taxable income have been provided for and recognised in the annual financial statements as normal tax payable.

Future tax benefits related to deferred income tax assets are recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

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Accounting Policies

1.5 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10-15 years
• Non residential dwellings	15-25 years
• Electricity	5-60 years
• Water	5-100 years
• Sewerage	10-40 years
• Airports	15-30 years
Other	
• Furniture and office equipment	5-10 years
• Computer equipment	3-5 years
• Transport assets	5-7 years
• Other machinery and equipment	5-15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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1.6 Intangible assets

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the economic entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Average useful life
Computer software	5

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

Assets are resources controlled by an economic entity as a result of past events and from which future economic benefits or service potential are expected to flow to the economic entity.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an economic entity's operations that is shown as a single item for the purpose of disclosure in the consolidated annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The economic entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the economic entity, and the cost or fair value of the asset can be measured reliably.

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Accounting Policies

1.7 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The economic entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the economic entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The economic entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Umkhanyakude District Municipality and its Municipal entity

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Accounting Policies

1.8 Financial Instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Loans payable	Financial liability measured at amortised cost

Initial recognition

The economic entity recognises a financial asset or a financial liability in its statement of financial position when the economic entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The economic entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Accounting Policies

1.8 Financial Instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The economic entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The economic entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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Accounting Policies

1.8 Financial Instruments (continued)

Derecognition

Financial assets

The economic entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the economic entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the economic entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the economic entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The economic entity removes a financial liability (or a part of a financial liability) from its consolidated statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as income or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the consolidated statement of financial position when the economic entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

Payables from exchange transactions

Trade and other payables are measured at amortised cost.

Loans payable

Loans payable are measured at amortised cost

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at amortised cost.

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Accounting Policies

1.9 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in consolidated statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Operating lease asset or liability is recognised as asset or liability in the statement of financial position.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

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Accounting Policies

1.11 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the economic entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the economic entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the economic entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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1.14 Employee benefits (continued)

Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPP which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs.

1.15 Provisions and contingencies

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the economic entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.16 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the consolidated financial statements, if both the following criteria are met:

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1.16 Commitments (continued)

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers. .

1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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1.18 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the economic entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the economic entity receives value from another entity without directly giving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the economic entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

When, as a result of a non-exchange transaction, the economic entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.19 Interest Income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

"Unauthorised expenditure", in relation to a municipality or municipal entity, means any expenditure incurred by a economic entity otherwise than in accordance with section 15 or 11(3) of MFMA, and includes-

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; or
- spending of an allocation referred to in paragraph (b), (c), (d) or (e) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation;

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the consolidated statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the consolidated statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure in relation to a municipality or municipal entity, means -

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure."

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity's

accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value;
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance;
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.27 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the economic entity to the consumer.

1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.29 Budget information

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisation (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.29 Budget information (continued)

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The consolidated annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.30 Related parties

The economic entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

A related party is a person or an municipality with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the economic entity.

A related party transaction is a transfer of resources, services or obligations between the reporting economic entity and a related party, regardless of whether a price is charged.

1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The economic entity will adjust the amount recognised in the consolidated financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the consolidated financial statements.

1.32 Changes accounting estimates and judgements

The economic entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

1.33 VAT

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

Umkhanyakude District Municipality and its Municipal entity
Consolidated Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.33 VAT (continued)

VAT as disclosed in the annual financial statements have been prepared on the accrual basis.

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

2. New standards and Interpretations

2.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:

	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	1 April 2020.
• GRAP 20: Related party disclosures	1 April 2019.
• GRAP 32: Service Concession Arrangement: Grantor	1 April 2019.
• GRAP 34: Separate Financial Statements	No effective date.
• GRAP 35: Consolidated Financial statements	No effective date.
• GRAP 36: Investments in Associates and Joint Ventures	No effective date.
• GRAP 37: Joint Arrangements	No effective date.
• GRAP 38 : Disclosure of interest in other entities	No effective date.
• GRAP 108 : Statutory receivables	No effective date.
• Additional text	
• GRAP 109: Accounting by Principals and Agents	1 April 2019.
• GRAP 110 : Living and Non-Living Resources	1 April 2020.
• IGRAP 17: Service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset Service Concession Arrangement	No effective date.
• IGRAP 18: Recognition and Derecognition of Land	1 April 2019.

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
3. Inventories				
Materials	107 422 789	111 779 144	107 422 789	111 779 144
Water	1 658 760	1 026 231	1 658 760	1 026 231
Water meters	12 040 360	12 040 360	12 040 360	12 040 360
	121 121 909	124 845 735	121 121 909	124 845 735

Inventory is carried at its original cost.

Inventory pipes to the value of R336 653 were used for sewer connection and the total value was capitalised to infrastructure assets. The other movement of R4 019 703 was unaccounted for and was recognised as expense.

4. Receivables from exchange transactions

Gross balances				
Electricity	14 439 192	21 954 072	14 439 192	21 954 072
Water	39 307 011	117 049 999	39 307 011	117 049 999
Sewerage	43 080 893	44 263 310	43 080 893	44 263 310
WSSA debtors	6 948 586	3 219 169	6 948 586	3 219 169
Department of education	1 776 165	7 933 061	-	-
	105 551 847	194 419 611	103 775 682	186 486 550

Less: Allowance for impairment

Allowance for impairment - Service charges	(60 090 193)	(130 622 099)	(60 090 193)	(130 622 099)
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Net balance

Receivables from exchange transactions	45 461 654	63 797 512	43 685 489	55 864 451
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Department of education

Current (0 -30 days)	-	2 840 280	-	-
31 - 60 days	-	2 334 030	-	-
61 - 90 days	-	530 929	-	-
91 - 120 days	-	2 227 823	-	-
>120 days	1 776 165	-	-	-
	1 776 165	7 933 062	-	-

Electricity

Current (0 -30 days)	440 440	98 795	440 440	98 795
31 - 60 days	335 965	166 851	335 965	166 851
61 - 90 days	208 801	182 219	208 801	182 219
91 - 120 days	541 355	81 230	541 355	81 230
>120 days	12 912 631	21 424 977	12 912 631	21 424 977
	14 439 192	21 954 072	14 439 192	21 954 072

Water

Current (0 -30 days)	1 108 708	515 531	1 108 708	515 531
31 - 60 days	845 716	870 675	845 716	870 675
61 - 90 days	525 608	950 869	525 608	950 869
91 - 120 days	952 805	423 881	952 805	423 881
>120 days	35 874 174	114 289 043	35 874 174	114 289 043
	39 307 011	117 049 999	39 307 011	117 049 999

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

4. Receivables from exchange transactions (continued)

Sewerage				
Current (0 -30 days)	1 329 091	200 950	1 329 091	200 950
31 - 60 days	1 013 823	339 381	1 013 823	339 381
61 - 90 days	630 086	370 640	630 086	370 640
91 - 120 days	1 142 199	165 225	1 142 199	165 225
>120 days	38 965 694	43 187 114	38 965 694	43 187 114
	43 080 893	44 263 310	43 080 893	44 263 310

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
4. Receivables from exchange transactions (continued)				
Summary of debtors by customer classification				
Consumers				
Current (0 -30 days)	701 376	339 996	701 376	339 996
31 - 60 days	541 633	517 695	541 633	517 695
61 - 90 days	109 667	663 532	109 667	663 532
91 - 120 days	1 067 002	296 531	1 067 002	296 531
>120 days	61 003 077	139 516 993	61 003 077	139 516 993
	63 422 755	141 334 747	63 422 755	141 334 747
Less: Allowance for impairment	(49 295 509)	(112 969 766)	(49 295 509)	(112 969 766)
	14 127 246	28 364 981	14 127 246	28 364 981
Commercial				
Current (0 -30 days)	1 153 649	299 749	1 153 649	299 749
31 - 60 days	1 058 998	644 949	1 058 998	644 949
61 - 90 days	632 174	520 711	632 174	520 711
91 - 120 days	1 271 777	283 944	1 271 777	283 944
>120 days	18 124 509	27 865 460	18 124 509	27 865 460
	22 241 107	29 614 813	22 241 107	29 614 813
Less: Allowance for impairment	(10 794 685)	(16 879 912)	(10 794 685)	(16 879 912)
	11 446 422	12 734 901	11 446 422	12 734 901
National and provincial government				
Current (0 -30 days)	1 089 682	3 025 782	1 089 682	185 502
31 - 60 days	660 240	2 553 250	660 240	219 220
61 - 90 days	622 416	847 591	622 416	316 666
91 - 120 days	2 178 410	2 321 903	2 178 410	94 080
>120 days	6 612 486	9 733 911	6 612 486	9 733 911
	11 163 234	18 482 437	11 163 234	10 549 379
Total				
Current (0 -30 days)	2 878 239	3 665 528	2 878 239	825 248
31 - 60 days	2 195 504	3 715 894	2 195 504	1 381 864
61 - 90 days	1 364 258	2 031 838	1 364 495	1 500 909
91 - 120 days	2 636 359	2 902 377	2 636 359	674 554
>120 days	84 341 534	175 181 587	84 341 534	175 181 587
	93 415 894	187 497 224	93 416 131	179 564 162
Add: Credit balance debtors	3 410 965	3 703 219	3 410 965	3 703 219
Add: WSSA debtors	6 948 586	3 219 169	6 948 586	3 219 169
	103 775 445	194 419 612	103 775 682	186 486 550
Less: Allowance for impairment				
91 - 120 days	(141 483)	(130 315)	(141 483)	(130 315)
>120 days	(59 948 300)	(130 491 784)	(59 948 300)	(130 491 784)
	(60 089 783)	(130 622 099)	(60 089 783)	(130 622 099)
Reconciliation of allowance for impairment				
Balance at beginning of the year	(130 622 099)	(125 359 299)	(130 622 099)	(125 359 299)
Contributions to allowance	70 531 906	(5 262 800)	70 531 906	(5 262 800)
	(60 090 193)	(130 622 099)	(60 090 193)	(130 622 099)

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017
5. Other receivables from exchange transactions				
Other debtors	6 685 279	8 554 956	6 685 279	8 554 956
6. VAT receivable				
The VAT receivable balance is comprised of:				
Input VAT claimed through VAT 201 returns	31 149 152	51 966 698	26 929 663	51 062 763
Undeclared VAT output	(10 984 105)	(9 663 206)	(10 984 105)	(9 663 206)
Unclaimed VAT input	16 530 896	20 673 748	16 530 896	20 673 748
	36 695 943	62 977 240	32 476 454	62 073 305
7. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand	53	1 005	-	-
Bank balances	63 751 335	35 729 333	61 225 991	33 565 539
Call account balances	1 077 103	1 019 360	1 069 557	1 012 197
	64 828 491	36 749 698	62 295 548	34 577 736

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

7. Cash and cash equivalents (continued)

The municipality and its municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Municipality Accounts						
First National Bank - Demand deposit - 62092993809	651 178	619 401	587 008	651 178	619 401	587 008
First National Bank - Demand deposit - 62027696478	97 969	94 147	90 241	97 969	94 147	90 241
First National Bank - Primary Account: 62026865321	52 367 266	13 607 279	11 418 571	52 367 266	13 607 279	11 418 571
ABSA Bank - 40-5310-7423	8 124 072	4 977 950	673 798	8 124 072	4 977 950	673 798
Ilhala Bank - Club Account 23247671	636 685	614 609	580 439	636 685	614 609	580 439
ABSA Bank - Call Account - 91-1531-5268	385 390	361 234	13 886 098	385 390	361 234	13 886 098
First National Bank - Money Market Account - 62263733258	30 185	28 911	28 205	30 185	28 911	28 205
First National Bank - Business Call Account - 62309788498	2 803	2 651	2 499	2 803	2 651	2 499
ABSA Bank - Fixed deposit- 2076739152	-	14 271 554	-	-	14 271 554	-
Municipal Entity Accounts						
Nedbank - Primary Cheque Account-1029736839	2 525 344	2 163 794	200 528	2 525 344	2 163 794	200 528
Nedbank - Call Account	7 546	7 163	5 006 781	7 546	7 163	5 006 781
Cash on Hand	-	-	-	53	105	-
Total	64 828 438	36 748 693	32 474 168	64 828 491	36 748 798	32 474 168

8. Property, plant and equipment

Economic entity	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	66 998 243	(16 053 771)	50 944 472	93 542 059	(13 949 043)	79 593 016
Infrastructure	2 103 689 186	(203 571 760)	1 900 117 426	1 905 236 631	(170 661 595)	1 734 575 036
Other property, plant and equipment	40 358 357	(24 526 283)	15 832 074	41 328 597	(25 547 239)	15 781 358
Total	2 212 203 036	(244 151 814)	1 968 051 222	2 041 264 537	(210 157 877)	1 831 106 660

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017	2018	2017
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8. Property, plant and equipment (continued)

Controlling entity	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	66 998 243	(16 053 771)	50 944 472	93 542 059	(13 949 043)	79 593 016
Infrastructure	2 075 082 678	(203 434 999)	1 871 647 679	1 900 775 944	(170 661 595)	1 730 114 349
Other property, plant and equipment	39 491 903	(23 780 054)	15 711 849	40 354 788	(24 863 189)	15 491 599
Total	2 182 730 074	(243 268 824)	1 939 461 250	2 035 830 041	(209 473 827)	1 826 356 214

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

Figures in Rand

2018 2017 2017 2018

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2018

	Opening balance	Additions	Donations	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	79 593 016	662 216	-	-	(2 104 729)	(27 206 031)	50 944 472
Infrastructure	1 734 575 036	204 696 764	-	-	(32 910 164)	(6 244 210)	1 900 117 426
Other property, plant and equipment	15 781 358	1 084 590	6 750 000	(1 061 730)	(4 973 040)	(1 749 104)	15 832 074
	1 831 106 660	206 443 570	6 750 000	(1 061 730)	(39 987 933)	(35 199 345)	1 968 051 222

Reconciliation of property, plant and equipment - Economic entity - 2017

	Opening balance	Additions	Donations	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	79 558 453	2 190 867	-	-	(2 013 104)	(143 200)	79 593 016
Infrastructure	1 476 423 871	285 551 172	4 173 393	-	(27 885 650)	(3 687 750)	1 734 575 036
Other property, plant and equipment	18 669 220	813 457	-	-	(3 535 058)	(166 261)	15 781 358
	1 575 808 794	288 555 496	4 173 393	(33 433 812)	(3 997 211)	1 831 106 660	

Reconciliation of property, plant and equipment - Controlling entity - 2018

	Opening balance	Additions	Donated assets	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	79 593 016	662 216	-	-	(2 104 729)	(27 206 031)	50 944 472
Infrastructure	1 730 114 349	180 550 945	-	-	(32 773 405)	(6 244 210)	1 871 647 679
Other property, plant and equipment	15 491 599	1 084 590	6 750 000	(1 061 730)	(4 803 506)	(1 749 104)	15 711 849
	1 826 356 214	182 297 751	6 750 000	(1 061 730)	(39 681 640)	(35 199 345)	1 939 461 250

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2017

	Opening balance	Additions	Donations	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	79 558 453	2 190 867	-	(2 013 104)	(143 200)	79 593 016
Infrastructure	1 476 098 081	281 416 275	4 173 393	(27 885 650)	(3 687 750)	1 730 114 349
Other property, plant and equipment	18 332 946	700 105	-	(3 375 191)	(166 261)	15 491 599
	1 575 146 730	284 307 247	4 173 393	(33 273 945)	(3 997 211)	1 826 356 214

Pledged as security

During the 2018 financial year, Umkhanyakude District Municipality received 15 water tankers from Department of Water Affairs and these trucks were fair valued at R450 000 each.

As at 30 June 2017, Umkhanyakude District Municipality received assets from Umhlabyalingana Municipality at their carrying amounts of R4 173 393. These assets were recognised in the books of Umkhanyakude District Municipality at their carrying amounts as the carrying amounts were accepted as the good indicators of the fair value of the assets considering that they were only used for one year.

There were no assets pledged as security during the year.

Reconciliation of Work-in-Progress Economic entity - 2018

	Included within	Included within	Total
	Infrastructure	Buildings	
Opening balance	598 855 002	34 088 250	632 943 252
Additions	204 696 765	662 215	205 358 980
Projects written off	(6 244 210)	(27 206 031)	(33 450 241)
Transferred to completed assets	(37 758 766)	(2 853 083)	(40 611 849)
	759 548 791	4 691 351	764 240 142

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress Economic entity - 2017

	Included within Infrastructure	Included within Building	Total
Opening balance	582 840 104	37 259 023	620 099 127
Additions	253 792 335	2 190 868	255 983 203
Transferred to completed assets	(237 777 437)	(5 361 641)	(243 139 078)
	598 855 002	34 088 250	632 943 252

Reconciliation of Work-in-Progress Controlling entity - 2018

	Included within Infrastructure	Included within Buildings	Total
Opening balance	594 394 315	34 088 249	628 482 564
Additions	180 550 945	662 216	181 213 161
Projects written off	(6 244 210)	(27 206 031)	(33 450 241)
Transferred to completed assets	(34 031 001)	(2 853 083)	(36 884 084)
	734 670 049	4 691 351	739 361 400

Reconciliation of Work-in-Progress Controlling entity - 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	582 514 314	37 259 023	619 773 337
Additions	249 657 438	2 190 867	251 848 305
Transferred to completed assets	(237 777 437)	(5 361 641)	(243 139 078)
	594 394 315	34 088 249	628 482 564

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

9. Intangible assets

Economic entity	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	768 445	(576 095)	192 350	765 746	(464 090)	301 656
Controlling entity	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	768 445	(576 095)	192 350	765 746	(464 090)	301 656

Reconciliation of intangible assets - Economic entity - 2018

	Opening balance	Additions	Amortisation	Closing balance
Computer software	301 656	2 699	(112 005)	192 350

Reconciliation of intangible assets - Economic entity - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

Reconciliation of intangible assets - Controlling entity - 2018

	Opening balance	Additions	Amortisation	Closing balance
Computer software	301 656	2 699	(112 005)	192 350

Reconciliation of intangible assets - Controlling entity - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

10. Heritage assets

Economic entity	2018			2017		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000
Controlling entity	2018			2017		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

10. Heritage assets (continued)

	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

Reconciliation of heritage assets Economic entity - 2018

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Economic entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Controlling entity - 2018

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Controlling entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

Recognition of heritage assets

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

11. Payables from exchange transactions

Trade payables	178 888 419	282 270 971	170 928 537	275 774 210
Umkhosinga Payables	-	-	9 293 222	5 030 158
Debtor prepayments	3 410 965	3 703 219	3 410 965	3 703 219
Employee deductions and suspense accounts	594 085	4 325 170	594 085	4 325 170
Accruals for 13th cheque payments	3 543 142	3 234 937	3 543 142	3 234 937
Accruals for leave pay	12 394 953	13 530 026	12 159 899	13 246 954
Retentions	16 921 470	15 605 666	16 921 470	15 605 666
	215 753 034	322 669 989	216 851 320	320 920 314

12. Consumer deposits

Consumer deposits - water	1 396 340	1 377 510	1 396 340	1 377 510
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Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
13. Unspent conditional grants and receipts				
Unspent conditional grants and receipts comprises of:				
Unspent conditional grants and receipts				
ACIP Grant	4 695	4 695	4 695	4 695
CATHSETA Bursary Grant	121 621	-	-	-
Councillors Training	11 300	11 300	11 300	11 300
Disaster Management Grant	9 120	9 120	9 120	9 120
EDTEA Grant	6 761 934	6 289 012	6 880 747	-
Environmental Management Grant	405 600	405 600	405 600	405 600
Industrial Development Corporation Grant	700 135	700 135	-	-
Ingwavuma Prison Electrical Upgrade	101 506	101 506	101 506	101 506
Kwadapha	578 891	578 891	578 891	578 891
Kwazibi National Lottery Grant	122 667	122 667	122 667	122 667
Lake Tete	267 001	267 001	267 001	267 001
Mabibi National Lottery Grant	166 667	166 667	166 667	166 667
Massification Grant	4 172 492	4 172 492	4 172 492	4 172 492
Mkuze Market Stalls Grant	-	116 280	-	-
Mkuze Re-Generation Plan Grant	-	309 096	-	-
Mqobela National Lottery Grant	166 666	166 666	166 666	166 666
MTN Grant	515 703	515 703	-	-
Municipal Infrastructure Grant	-	15 410 451	-	15 410 451
National Treasury ILO Grant	212 173	212 173	-	-
Ndumo Learners Shelter Grant	9 441 505	9 441 505	9 441 505	9 441 505
Ndumo Market Stalls Grant	-	277 310	-	-
Ngodini Boarder Curve Grant	1 000 000	-	1 000 000	-
Nyezi Community HIV Centre	303 570	303 570	303 570	303 570
PIMMS/ NDT Operational Grant	300	300	300	300
Public Participation Customer Satisfaction Survey	154 000	154 000	154 000	154 000
Rural Road & Transport Management Grant	89 447	-	89 447	-
Waste Management Grant	145 566	145 566	145 566	145 566
Umkhombe Tours	908 690	908 690	908 690	908 690
Water Services Infrastructure Grant	-	32 205 315	-	32 205 315
	26 361 249	72 995 711	24 930 430	64 576 002

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

14. Defined benefit plan Obligation

Reconciliation of defined benefit plan obligation - Economic entity - 2018

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Closing balance
Long service awards	7 046 000	769 000	737 000	(526 047)	297 047	8 323 000

Reconciliation of defined benefit plan obligation - Economic entity - 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

Reconciliation of defined benefit plan obligation - Controlling entity - 2018

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Closing balance
Long service awards	7 046 000	769 000	737 000	(526 047)	297 047	8 323 000

Reconciliation of defined benefit plan obligation - Controlling entity - 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

Defined benefit plan obligation disclosed in the Statement of Financial Position as:

Non-current liabilities	7 027 000	6 512 000	7 027 000	6 512 000
Current liabilities	1 296 000	534 000	1 296 000	534 000
	8 323 000	7 046 000	8 323 000	7 046 000

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

14. Defined benefit plan Obligation (continued)

Long service awards

Membership Data

As at 30 June 2018, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted Average, past service (Years)
Male	184	43.92	9.56
Female	101	41.30	9.56
Total	285		

Long service awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. Awarded leave days are converted to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2018 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. It is further assumed that the current policy for awarding long service awards remains unchanged in the future.

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit awards (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	(10/250)*Annual salary
15	8%	(20/250)*Annual salary
20,25,30,35,40 and 45	12%	(30/250)*Annual salary

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

14. Defined benefit plan Obligation (continued)

Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2018	Assumed value 30 June 2017
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve** CPI + 1%	Difference between nominal and real yield curve** 6%
Normal salary increase	Yield Curve Based	Yield Curve Based
Net Effective Discount Rate	63	63
Average retirement age for all active employees	SA 85-90	SA 85-90.
Mortality before retirement		

The table below sets out the assumed rates of withdrawal from services:

Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 - 59	1%	1%
Age 60+	0%	0%.

Valuation of assets

As at the valuation date, the long service leave liability award of the economic entity was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

Amounts recognised in the Statement of Financial

Position	8 323 000	7 046 000	8 323 000	7 046 000
Accrued defined benefit obligation				

Reconciliation of accrued defined benefit obligation:

Long service awards				
Accrued liability as at preceding valuation date	7 046 000	6 169 000	7 046 000	6 169 000
Current service cost	769 000	817 000	769 000	817 000
Interest cost	737 000	649 000	737 000	649 000
Benefits paid	(526 047)	(464 295)	(526 047)	(464 295)
Actuarial (gain)/loss	297 047	(124 705)	297 047	(124 705)
Balance at year end	8 323 000	7 046 000	8 323 000	7 046 000

Net amounts recognised in Statement of Financial

Performance				
Current service cost	769 000	817 000	769 000	817 000
Interest cost	737 000	649 000	737 000	649 000
Benefits paid	(526 047)	(464 295)	(526 047)	(464 295)
Actuarial gain/(loss)	297 047	(124 705)	297 047	(124 705)
	1 277 000	877 000	1 277 000	877 000

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

15. Non-current loans

Development Bank of Southern Africa Loans

Non-current portion of borrowings	5 355 931	6 207 357	5 355 931	6 207 357
Current portion of borrowings (including interest accrual)	986 127	1 003 312	986 127	1 003 312
	6 342 058	7 210 669	6 342 058	7 210 669

DBSA

The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi- floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

16. Long term Trade and other payables

At amortised cost

Trade and other payables	22 154 396	-	22 154 396	-
36 equal monthly instalments, 5% interest				

Barzani Development (Pty) Ltd

During the 2018 financial year, the municipality entered into a settlement agreement with Barzani Development (Pty) Ltd in which the amount of R 32 429 5978 owing to Barzani will be repaid in 36 equal monthly instalments. The amount (R22 154 396) payable to Barzani after 12 months was reclassified from current liabilities to non current liabilities and the balance of (R10 275 202 is included in trade and other payables as current liabilities (Refer to note 11). The full amount carries an effective interest of 5%.

17. Service charges

Sale of electricity	6 141 212	5 262 044	6 141 212	5 262 044
Sale of water	23 941 538	13 771 141	23 941 538	13 771 141
Sewerage and sanitation charges	705 960	508 499	705 960	508 499
	30 788 710	19 541 684	30 788 710	19 541 684

18. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	208 830	56 310	208 830	56 310
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19. Investment revenue

Interest income

Interest on investment balances	4 276 622	2 402 904	4 260 086	2 213 099
Interest on other bank balances	2 681 544	2 902 114	2 681 544	2 902 114
	6 958 166	5 305 018	6 941 630	5 115 213

Umkhanyakude District Municipality and its Municipal entity

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
20. Other Income				
Airport fees	84 506	69 513	-	-
Commission	35 550	-	35 550	-
Connection fees	48 675	21 723	48 675	21 723
Department of Water and Sanitation refund	-	11 666 297	-	11 666 297
Donations Income	6 750 000	4 173 393	6 750 000	4 173 393
Fines and penalties	18 450	-	18 450	-
Gains on sale of assets	440 215	-	440 215	-
Refund from SETA	268 037	-	268 037	-
Sale of tender documents	63 828	198 866	63 828	171 234
Sundry revenue	-	116 000	-	16 000
	7 709 261	16 245 792	7 624 755	16 048 647

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017
21. Government grants and subsidies				
Operating grants				
Equitable share	330 020 451	292 147 158	330 020 451	292 147 158
Expanded Public Works Programme	1 008 000	1 293 000	1 008 000	1 293 000
Finance Management Grant	1 250 000	1 250 000	1 250 000	1 250 000
National school Nutrition Program	8 263 778	23 197 434	-	-
Ndumo Groundnuts	-	353 847	-	353 847
Rural Road and Transport Management Grant	2 529 553	-	2 529 553	-
Shared Services Grant	-	54 540	-	54 540
Other Operating Grants	28 675 712	7 863 727	662 215	2 190 868
	371 747 494	326 169 706	335 470 219	297 289 413
Capital grants				
Municipal Infrastructure Grant	218 910 000	192 111 543	218 910 000	192 111 543
Water services Infrastructure Grant	82 205 315	38 165 685	82 205 315	38 165 685
	301 115 315	230 277 228	301 115 315	230 277 228
	672 862 809	556 436 934	636 585 534	527 566 641
Public Participation & Customer Satisfaction Survey Grant				
Balance unspent at beginning of year	154 000	154 000	154 000	154 000
Conditions still to be met - remain liabilities (see note 13).				
PIMMS / NDT Operational Grant				
Balance unspent at beginning of year	300	300	300	300
Conditions still to be met - remain liabilities (see note 13).				
Financial Management Grant				
Current-year receipts	1 250 000	1 250 000	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)	(1 250 000)	(1 250 000)
	-	-	-	-
Massification Grant				
Balance unspent at beginning of year	4 172 492	4 172 492	4 172 492	4 172 492
Conditions still to be met - remain liabilities (see note 13).				
Kwazib National Lottery Grant				
Balance unspent at beginning of year	122 667	122 667	122 667	122 667
Conditions still to be met - remain liabilities (see note 13).				
Mqobela National Lottery Grant				
Balance unspent at beginning of year	166 666	166 666	166 666	166 666
Conditions still to be met - remain liabilities (see note 13).				

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017
21. Government grants and subsidies (continued)				
Mabibi National Lottery Grant				
Balance unspent at beginning of year	166 667	166 667	166 667	166 667
Conditions still to be met - remain liabilities (see note 13).				
Disaster Management Grant				
Balance unspent at beginning of year	9 120	9 120	9 120	9 120
Conditions still to be met - remain liabilities (see note 13).				
Rural Road & Transport Management				
Balance unspent at beginning of year	-	2 446 931	-	2 446 931
Current-year receipts	2 619 000	-	2 619 000	-
Unspent Grants paid back	-	(2 446 931)	-	(2 446 931)
Conditions met - transferred to revenue	(2 529 553)	-	(2 529 553)	-
	89 447	-	89 447	-
Conditions still to be met - remain liabilities (see note 13).				
Ndumo Groundnuts Grant				
Balance unspent at beginning of year	-	353 847	-	353 847
Conditions met - transferred to revenue	-	(353 847)	-	(353 847)
	-	-	-	-
Expanded Public Works Programme				
Balance unspent at beginning of year	-	2 331 774	-	2 331 774
Current-year receipts	1 008 000	1 293 000	1 008 000	1 293 000
Conditions met - transferred to revenue	(1 008 000)	(1 293 000)	(1 008 000)	(1 293 000)
Unspent Grant withheld from Equitable share	-	(2 331 774)	-	(2 331 774)
	-	-	-	-
Lake Tete Grant				
Balance unspent at beginning of year	267 001	267 001	267 001	267 001
Conditions still to be met - remain liabilities (see note 13).				
Kwadapha Grant				
Balance unspent at beginning of year	578 891	578 891	578 891	578 891
Conditions still to be met - remain liabilities (see note 13).				
Nyezi Community HIV Centre Grant				
Balance unspent at beginning of year	303 570	303 570	303 570	303 570

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
21. Government grants and subsidies (continued)				
Conditions still to be met - remain liabilities (see note 13).				
Umkhombe Tours Grant				
Balance unspent at beginning of year	908 690	908 690	908 690	908 690
Conditions still to be met - remain liabilities (see note 13).				
Waste Management Grant				
Balance unspent at beginning of year	145 565	145 565	145 565	145 565
Conditions still to be met - remain liabilities (see note 13).				
Environmental Management Grant				
Balance unspent at beginning of year	405 600	405 600	405 600	405 600
Conditions still to be met - remain liabilities (see note 13).				
Ndumo Learners Shelter Grant				
Balance unspent at beginning of year	9 441 505	9 441 505	9 441 505	9 441 505
Conditions still to be met - remain liabilities (see note 13).				
Municipal Infrastructure Grant				
Balance unspent at beginning of year	15 410 451	-	15 410 451	-
Current-year receipts	218 910 000	207 522 000	218 910 000	207 522 000
Conditions met - transferred to revenue	(218 910 000)	(192 111 549)	(218 910 000)	(192 111 549)
Unspent Grant withheld from Equitable share	(15 410 451)	-	(15 410 451)	-
	-	15 410 451	-	15 410 451
Councillors Training Grant				
Balance unspent at beginning of year	11 300	11 300	11 300	11 300
Conditions still to be met - remain liabilities (see note 13).				
Ingwavuma Prison Electrical Upgrade				
Balance unspent at beginning of year	101 506	101 506	101 506	101 506
Conditions still to be met - remain liabilities (see note 13).				
Water Services Operating Subsidy				
Balance unspent at beginning of year	-	1 945 954	-	1 945 954
Conditions met - transferred to revenue	-	(1 945 954)	-	(1 945 954)
	-	-	-	-
Shared Services Grant				

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
21. Government grants and subsidies (continued)				
Balance unspent at beginning of year	-	54 540	-	54 540
Conditions met - transferred to revenue	-	(54 540)	-	(54 540)
	-	-	-	-
Rural Household Infrastructure Grant				
Balance unspent at beginning of year	-	8 498	-	8 498
Unspent grants withheld from Equitable share	-	(8 498)	-	(8 498)
	-	-	-	-
Ngodini Boarder Curve Grant				
Current-year receipts	1 000 000	-	1 000 000	-
Conditions still to be met - remain liabilities (see note 13).				
ACIP Grant				
Balance unspent at beginning of year	4 695	4 695	4 695	4 695
Conditions still to be met - remain liabilities (see note 13).				
Water Service Infrastructure Grant				
Balance unspent at beginning of year	32 205 315	-	32 205 315	-
Current-year receipts	50 000 000	70 371 000	50 000 000	70 371 000
Conditions met - transferred to revenue	(82 205 315)	(38 165 685)	(82 205 315)	(38 165 685)
	-	32 205 315	-	32 205 315
Ndumo Market Stalls Grant: COGTA				
Balance unspent at beginning of year	277 310	2 992 861	-	-
Conditions met - transferred to revenue	(277 310)	(2 715 551)	(662 215)	(2 190 867)
	-	277 310	-	-
Mkuze Regeneration Framework				
Balance unspent at beginning of year	309 096	446 289	-	-
Conditions met - transferred to revenue	(309 096)	(137 193)	-	-
	-	309 096	-	-
Mkuze Market Stalls Grant				
Balance unspent at beginning of year	116 280	400 500	-	-
Conditions met - transferred to revenue	(116 280)	(284 220)	-	-
	-	116 280	-	-
IDC Grant				
Balance unspent at beginning of year	700 135	700 873	-	-
Conditions met - transferred to revenue	-	(738)	-	-

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
21. Government grants and subsidies (continued)				
	700 135	700 135	-	-
Conditions still to be met - remain liabilities (see note 13).				
National Treasury: ILO Grant				
Balance unspent at beginning of year	212 173	212 173	-	-
Conditions still to be met - remain liabilities (see note 13).				
MTN Grant				
Balance unspent at beginning of year	515 703	515 703	-	-
Conditions still to be met - remain liabilities (see note 13).				
Mkuze Fencing and Runway (EDTEA) grant				
Balance unspent at beginning of year	6 289 012	5 015 037	-	-
Current-year receipts	28 100 000	6 000 000	6 880 747	-
Conditions met - transferred to revenue	(27 627 078)	(4 726 025)	-	-
	6 761 934	6 289 012	6 880 747	-
Conditions still to be met - remain liabilities (see note 13).				
National Schools Nutrition Programme Grant				
Current-year receipts	8 263 778	23 197 434	-	-
Conditions met - transferred to revenue	(8 263 778)	(23 197 434)	-	-
	-	-	-	-
CATHSETA Bursary Grant				
Current-year receipts	1 212 000	-	-	-
Conditions met - transferred to revenue	(1 090 379)	-	-	-
	121 621	-	-	-
Conditions still to be met - remain liabilities (see note 13).				

Umkhanyakude District Municipality and its Municipal entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
22. Employee related costs				
Basic	109 685 708	104 497 012	104 384 331	99 441 280
Bonus*	6 217 769	-	6 217 769	-
Medical aid - company contributions	21 032 098	20 775 632	20 364 415	20 221 856
Staff retirement benefits	972 086	929 779	-	-
Travel, motor car, accommodation, subsistence and other allowances	6 842 098	6 383 310	6 842 098	6 383 310
Overtime payments	6 802 953	3 145 630	6 802 953	3 145 630
Housing benefits and allowances	1 068 539	556 085	1 068 539	556 085
Leave pay accrual charge	17 037	4 320 996	65 055	4 220 989
	152 638 288	140 608 444	145 745 160	133 969 150

*During the 2017 financial year, bonuses paid were included in basic remuneration.

Remuneration of municipal manager

Annual Remuneration	1 423 502	799 521	1 423 502	799 521
Travel, housing and other allowances	159 500	69 891	159 800	69 891
Contributions to UIF, Medical and Pension Funds	13 890	5 343	13 890	5 343
	1 596 892	874 755	1 597 192	874 755

Two people acted for the position of Municipal Manager during the 2017 financial year. The permanent Municipal Manager was only appointed effective 01 August 2017 and he resigned post 2018 financial year. The CFO was then appointed as the Acting Municipal Manager from August 2018.

Remuneration of Chief Finance Officer

Annual remuneration	742 091	1 388 306	742 091	1 388 306
Travel, housing and other allowances	284 066	-	284 066	-
Contributions to UIF, Medical and Pension Funds	10 593	-	10 593	-
	1 036 750	1 388 306	1 036 750	1 388 306

During the 2017 financial year, there was an acting Chief Financial Officer(CFO) and he was paid total remuneration of R1 388 306. A new CFO was appointed on 01 September 2017 and he was later appointed as the Acting Municipal Manager in August 2018, and a new Acting CFO was appointed.

Remuneration of the Chief Executive Officer -Umhlosinga Development Agency

Annual Remuneration	1 054 100	963 000	-	-
Travel, housing and other allowances	343 470	321 000	-	-
Contributions to UIF, Medical and Pension Funds	256 160	239 445	-	-
	1 653 730	1 523 445	-	-

Remuneration of Chief Finance Officer - Umhlosinga Development Agency

Annual Remuneration	1 102 537	778 425	-	-
Travel, housing and other allowances	-	257 603	-	-
Contributions to UIF, Medical and Pension Funds	191 999	179 930	-	-
	1 294 536	1 215 958	-	-

Remuneration of General Manager - Corporate Service

Annual Remuneration	471 336	709 776	471 336	709 776
Travel, housing and other allowances	167 498	237 984	167 498	237 984

Umkhanyakude District Municipality and its Municipal entity

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
22. Employee related costs (continued)				
Contributions to UIF, Medical and Pension Funds	162 554	67 564	162 554	67 564
	801 388	1 015 324	801 388	1 015 324

The General Manager for Corporate Services resigned during the 2017 financial year and two people acted consecutively for the position. A permanent General Manager was appointed in March 2018 and still holds the office.

Remuneration of General Manager - Community Services and Planning & Economic Development

Annual Remuneration	609 872	782 568	609 872	782 568
Car Allowance	118 445	203 048	118 445	203 048
Travel, housing and other allowances	7 637	10 250	7 637	10 250
	735 954	995 866	735 954	995 866

The General Manager for Community Services and Planning and Economic Development resigned during 2018 financial year and a new General Manager was appointed post 2018 financial year.

Remuneration of General Manager - Technical Services

Annual Remuneration	1 292 800	946 623	1 292 800	946 623
Travel, housing and other allowances	45 600	860 566	45 600	860 566
Contributions to UIF, Medical and Pension Funds	14 530	107 657	14 530	107 657
	1 352 930	1 914 846	1 352 930	1 914 846

The General Manager for Technical services resigned during the 2018 financial year and a new General Manager was appointed and still holds the office.

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	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017
23. Remuneration of councillors				
Mayor	738 061	677 605	738 061	677 605
Deputy Mayor	624 764	622 539	624 764	622 539
Speaker	633 968	592 872	633 968	592 872
Executive Committee Members	2 026 944	1 652 500	2 026 944	1 652 500
Councillors	3 183 554	3 328 798	3 183 554	3 328 798
	7 207 291	6 874 314	7 207 291	6 874 314
Mayor				
Mayoral allowance	563 040	524 089	563 040	524 089
Travel allowance	140 760	127 310	140 760	127 310
Cellphone allowance	27 512	19 682	27 512	19 682
Contributions to UIF, Medical and Pension Funds	6 749	6 524	6 749	6 524
	738 061	677 605	738 061	677 605
Deputy Mayor				
Annual remuneration	450 432	424 110	450 432	424 110
Travel allowance	112 608	103 316	112 608	103 316
Cellphone allowance	40 800	19 682	40 800	19 682
Reimbursive allowance	20 924	69 543	20 924	69 543
Contributions to UIF, Medical and Pension Funds	-	5 888	-	5 888
	624 764	622 539	624 764	622 539
Speaker				
Annual remuneration	450 432	424 110	450 432	424 110
Travel allowance	112 608	102 315	112 608	102 315
Cellphone allowance	40 800	19 682	40 800	19 682
Reimbursive allowance	30 128	41 114	30 128	41 114
Contributions to UIF, Medical and Pension Funds	-	5 651	-	5 651
	633 968	592 872	633 968	592 872
In-kind benefits				
The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time.				
The Mayor, Deputy Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.				
All Councillors are re-imbursed for kilometres travelled on official duties if they use private vehicles with the exception of the Mayor.				
The Mayor, Deputy Mayor and Speaker each has the use of Council owned vehicle for official duties.				
The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.				
24. Depreciation, amortisation and impairment				
Property, plant and equipment	75 299 283	37 538 624	74 992 988	37 378 520
25. Finance costs				
Trade and other payables	90 516	84 830	-	-
Current borrowings	2 024 066	1 339 122	2 024 066	1 339 122
	2 114 582	1 423 952	2 024 066	1 339 122

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2018	2017	2018	2017

26. Debt impairment

Contributions to debt impairment provision	(70 531 905)	5 262 800	(70 531 905)	5 262 800
Bad debts written off	100 489 610	-	100 489 610	-
	29 957 705	5 262 800	29 957 705	5 262 800

27. Repairs and maintenance

Expenditure on repairs and maintenance comprised the following:

Electricity infrastructure	-	1 484 096	-	1 484 096
Furniture and Equipment	7 446	-	7 446	-
Motor vehicles	-	412 368	-	412 368
Sanitation Infrastructure	85 000	-	85 000	-
Buildings	725 455	964 805	715 964	964 114
Water distribution	33 701 827	72 366 982	33 701 827	72 366 982
	34 519 728	75 228 251	34 510 237	75 227 560

28. Bulk purchases

Electricity	41 298 322	38 986 494	41 298 322	38 986 494
Water	60 406 911	51 807 572	60 406 911	51 807 572
	101 705 233	90 794 066	101 705 233	90 794 066

Bulk purchases of electricity comprises electricity purchases for resale as prepaid electricity, own consumption by the municipality for it's buildings, offices and water schemes.

Bulk purchases of water comprises water purchased for resale.

29. Contracted services

Contracted expenditure incurred during the year	44 689 137	51 086 005	37 179 286	27 923 751
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Contracted services comprised the following :

Consultancy fees	5 973 069	5 284 243	5 973 069	5 284 243
Insurance	1 036 733	1 041 898	1 036 733	1 041 898
Fleet management *	14 709 569	5 788 025	14 709 569	5 788 025
Vehicle hire	-	14 856	-	14 856
Photocopies and office equipment rental	1 142 462	1 524 518	1 058 354	1 446 165
Cellular and data services	2 648 423	1 309 836	2 648 423	1 309 836
IT services and system support	2 122 804	2 578 273	2 122 804	2 578 273
Internal audit fees	1 463 127	272 910	1 463 127	272 910
Communication	1 303 096	2 788 505	1 303 096	2 788 505
Security services	6 775 483	6 572 997	6 775 483	6 572 997
School nutrition programme	7 425 743	23 083 901	-	-
Other services	88 628	826 043	88 628	826 043
	44 689 137	51 086 005	37 179 286	27 923 751

* Current year fleet management costs include renewal of vehicle licences and fuel costs.

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
30. General expenses				
Accommodation	785 008	481 672	698 731	337 462
Advertising	366 907	362 279	346 710	43 688
External audit fees	3 611 607	3 446 868	3 230 547	3 031 181
Audit committee fees	574 021	354 086	323 751	354 086
Administration expenses	18 468	24 221	-	-
Internal audit fees	142 520	197 481	-	-
Bank charges	166 839	338 114	148 896	318 207
Cleaning	267 440	348 167	261 865	345 182
Community development and training	1 344 082	70	1 344 082	70
Consulting and professional fees	6 500	76 968	-	-
Fuel and oil	1 540	876 102	493	876 021
Electricity and Water	-	20 344	-	-
Grants & Subsidies - Extended Public Works	-	2 343 709	-	2 343 709
Grants & Subsidies - Jozini RHIG Sanitation	-	3 508 772	-	3 508 772
Rural Transport Management	2 106 571	-	2 106 571	-
Grants & Subsidies - Mseleni Ground Nuts	-	359 071	-	359 071
Grants & Subsidies - Umhlosinga Development Agency	-	-	11 097 094	5 558 077
Hire of Plant & Equipment	-	17 676 645	-	17 676 645
Entertainment	-	13 745	-	13 745
Legal Fees	5 807 750	5 066 840	5 754 987	5 066 840
Fleet	-	11 000	-	11 000
Licences	609 115	502 771	609 115	502 771
Other expenses	97 634	3 331 833	79 874	3 326 347
Medical expenses	111 930	45 500	111 930	45 500
Municipal Health	94 571	58 280	94 571	58 280
Operation Turn Around	-	123	-	123
IT Expense	34 424	64 501	-	-
Fines and penalties	179 251	-	179 251	-
Insurance	32 528	31 933	-	-
Conferences and seminars	8 361	31 274	-	-
Staff programs and functions	35 400	-	35 400	-
Postage and courier	1 141	1 955	-	1 012
Training	150 175	64 205	98 978	13 679
Printing and stationery	58 004	573 141	44 674	551 629
Royalties and license fees	-	296 000	-	296 000
Sports DC27	890 638	489 115	890 638	489 115
Small tools	4 978	694 718	-	690 015
Systems Support	120 474	-	120 474	-
Telephone and fax	29 135	33 784	-	-
Tourism Projects	349 390	-	349 390	-
Grants paid	294 642	365 253	-	-
Sanitation: Sewer assessment expenses	-	9 796 926	-	9 796 926
Community and Social services	1 714 686	78 000	1 714 686	78 000
Publicity	254 225	293 780	254 225	293 780
Hiring and screening costs	38 972	-	38 972	-
Inventory losses	4 019 703	-	4 019 703	-
Uniforms	188 409	76 286	188 409	74 964
Events Organisations	206 300	-	206 300	-
	24 723 339	52 335 532	34 350 317	56 061 897

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
31. Cash generated from operations				
Surplus	245 673 190	136 558 455	214 477 176	133 622 020
Adjustments for:				
Depreciation and amortisation	75 299 283	37 538 624	74 992 988	37 378 520
Gain on sale of assets	(440 215)	-	(440 215)	-
Interest income	(6 958 166)	(5 305 018)	(6 941 630)	(5 115 213)
Finance costs	2 114 582	1 423 952	2 024 066	1 339 122
Debt impairment	29 957 705	5 262 800	29 957 705	5 262 800
Movements in defined benefit obligations	1 277 000	877 000	1 277 000	877 000
Donations in kind (refer to note 8)	(6 750 000)	(4 173 393)	(6 750 000)	(4 173 393)
Movement in tax receivable and payable	-	(44 035)	-	-
Other non-cash items	(73 980)	-	-	-
Changes in working capital:				
Inventories	3 723 826	12 078 072	3 723 826	12 078 072
Receivables from exchange transactions	(11 621 847)	(4 944 546)	(17 778 743)	(4 359 970)
Other receivables from exchange transactions	1 869 677	1 467 269	1 869 677	1 467 269
Payables from exchange transactions	(106 916 955)	(180 817)	(104 068 994)	(1 178 767)
VAT	26 281 297	(5 594 930)	29 596 851	(5 204 720)
Unspent conditional grants and receipts	(46 634 462)	38 610 500	(39 645 572)	40 474 227
Consumer deposits	18 830	184 457	18 830	184 457
Reclassification of payables to long term	22 154 396	-	22 154 396	-
	228 974 161	213 758 390	204 467 361	212 651 424

32. Comparative figures

Expenses for system support (R2 459 042) and consulting and professional fees (R1 706 385) were reclassified from general expenses to contracted services.

Further to the above, amounts within General expenses were reclassified as follows for the Economic entity:

- R197 481 was reclassified from Audit fees to Internal audit fees
- R399 was reclassified from Consumables to Postage and courier
- 64 500 was reclassified from Consumables to IT
- R5 486 was reclassified from Arts and Culture to Other expenses

The effects of the reclassification are as follows:

Economic entity

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification on	After reclassification before prior period error
Contracted services	46 426 932	4 163 455	50 590 387
General expenses	47 308 449	(4 163 455)	43 144 994
Total	93 735 381	-	93 735 381

Controlling entity

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand

32. Prior-year adjustments (continued)

Statement of financial performance - extract

	Comparative figures previously reported	Reclassificati on	After reclassificatio n before prior period error
Contracted services	23 264 678	4 163 455	27 428 133
General expenses	51 034 815	(4 163 455)	46 871 360
Total	74 299 493	-	74 299 493

33. Prior period errors

Error 1

Receivables from exchange transactions were overstated in the prior year due incorrect billing on customers during 2016 financial year going back. Receivables for Water were overstated by R1 531 744 and Sewerage receivables were overstated by R392 142.

Cash on hand of R48 281 was written off retrospectively as the balance in prior year was for deposits for electricity that were duplicated in the general ledger.

A invoice for protective clothing of R478 000 that were bought in the prior year and was erroneously omitted in the general ledger was noted and adjusted retrospectively.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Decrease in receivables from exchange transactions	-	(1 923 887)	-	(1 923 887)
Decrease in Accumulated surplus	-	1 763 003	-	1 763 003
Increase in VAT receivable	-	209 165	-	209 165
Decrease in Cash and cash equivalents	-	(48 281)	-	(48 281)
Increase in Payables from exchange transactions	-	(478 000)	-	(478 000)

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand

33. Prior period errors (continued)

Statement of financial performance

Increase in General expenses: small tool and protective clothing	-	478 000	-	478 000
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Error 2

During the year under audit, supplier confirmations were sent out to all suppliers requesting confirmations of outstanding amounts in order to clear unexplained credit amounts in the age analysis. All suppliers who confirmed that we do not owe them anything were written off. Additional invoices that were incorrectly captured and/or omitted were also discovered and adjusted accordingly.

Suspense accounts for payroll payables and receivables that were unknown and carried forward from prior years were also written off against accumulated surplus.

The effect of the adjustments is as follows.

Statement of financial position

Decrease in Other receivables from exchange transactions	-	(1 475 455)	-	(1 475 455)
Increase in VAT receivable	-	3 740 518	-	3 740 518
Increase in Payables from exchange transactions: Trade creditors	-	(16 627 702)	-	(16 627 702)
Decrease in Payables from exchange transactions: Employee related and suspense	-	2 196 301	-	2 196 301
Decrease in Payables from exchange transactions: Accruals for overtime	-	329 699	-	329 699
Increase in opening Accumulated surplus	-	(11 606 490)	-	(11 606 490)

Statement of financial performance

Increase in Bulk purchases- Water	-	8 949 122	-	8 949 122
Increase in Bulk purchases- Electricity	-	915 378	-	915 378
Decrease in General expenses: Legal	-	(44 544)	-	(44 544)
Decrease in General expenses: Hire of plant	-	(1 308 481)	-	(1 308 481)
Increase in general expenses: Sewer assessment	-	9 796 926	-	9 796 926
Increase in general expenses: License	-	193 132	-	193 132
Increase in general expenses: Community and social service	-	75 500	-	75 500
Increase in Contracted services: Fleet	-	69 346	-	69 346
Increase in Contracted services: Security	-	426 272	-	426 272
Increase in Repairs and maintenance: buildings and motor vehicles	-	202 575	-	202 575
Increase in Repairs and maintenance: Water infrastructure	-	4 167 901	-	4 167 901

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33. Prior period errors (continued)

Error 3

Property, plant and equipment were overstated due to assets that were either disposed off, handed over to the community or local municipalities or duplicated in the asset register. The total of this overstatement is R23 602 162 of which main components are made up as follows:

Mtubatuba sports complex handed over to local municipality	R7 556 408
Yard taps handed over to community	R10 946 959
Tata truck return to dealers and not derecognised	R453 297
Park homes duplicated	R556 653
Burnt offices	R2 569
Under depreciation (net effect)	R14 268

Some property, plant and equipment assets were omitted in the fixed asset register in prior years and these were recognised at fair value of R429 282.

Also invoices for additions to assets under construction were omitted during the 2017 financial year resulting in understatement of assets by R53 532 002, and one invoice was incorrectly overstated by R1 385 401.

A project was incorrectly capitalised in the prior year as completed, however it was noted that the project is still under construction and only a phase was completed. This project was still not completed again by 30 June 2018. The depreciation charge of R7 665 that was recognised in 2017 financial year was reversed and the project was reclassified as work in progress in the asset register.

A project under construction (Markert stalls) of R2 190 867 was incorrectly omitted from the fixed assets register.

Another infrastructure project under construction of R 26 658 475 was duplicated in the FAR. This was adjusted retrospectively.

The net effect of the adjustment as at 30 June 2017 is as follows:

Statement of financial position

Increase in Property, plant and equipment	-	2 315 245	-	4 506 112
Increase in VAT receivable	-	7 416 980	-	7 416 980
Increase in Payables from exchange transactions	-	(59 563 581)	-	(59 563 581)
Decrease in opening Accumulated surplus	-	50 203 992	-	50 203 992

Statement of financial performance

Increase in Revenue: Operational grants	-	-	-	(2 190 867)
Decrease in depreciation and impairment expense	-	(372 636)	-	(372 636)

Error 4

During the year, the economic entity discovered that some assets were incorrectly omitted in the Fixed asset register. These assets were recognised at their fair values retrospectively.

The net effect of the adjustment is as follows:

Statement of financial position

Increase in Property, plant and equipment	-	45 009	-	-
Increase in Opening accumulated surplus	-	(45 009)	-	-

34. Prior-year adjustments

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

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34. Prior-year adjustments (continued)

Statement of financial position - extract

Economic entity - 2017

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		65 721 399	(1 923 887)	63 797 512
Other receivables from exchange transactions		10 030 411	(1 475 455)	8 554 956
VAT receivable		51 610 577	11 366 663	62 977 240
Cash and cash equivalents		36 797 979	(48 281)	36 749 698
Property, plant and equipment		1 828 746 405	2 360 255	1 831 106 660
Payables from exchange transactions		248 526 706	74 143 283	322 669 989
Accumulated surplus		1 781 483 567	(63 863 987)	1 717 619 580
		4 022 917 044	20 558 691	4 043 475 635

Controlling entity - 2017

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		57 788 337	(1 923 887)	55 864 450
Other receivables from exchange transactions		10 030 411	(1 475 455)	8 554 956
VAT receivable		50 706 642	11 366 663	62 073 305
Cash and cash equivalents		34 626 017	(48 281)	34 577 736
Property, plant and equipment		1 821 850 101	4 506 112	1 826 356 213
Payables from exchange transactions		246 777 031	74 143 283	320 920 314
Accumulated surplus		1 773 747 687	(61 718 128)	1 712 029 559
		3 995 526 226	24 850 307	4 020 376 533

Statement of financial performance - extract

Economic entity 2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Depreciation, amortisation and impairment		37 911 260	(372 636)	-	37 538 624
Repairs and maintenance		70 857 776	4 370 475	-	75 228 251
Bulk purchases		80 929 566	9 864 500	-	90 794 066
Contracted services		46 426 932	495 618	4 163 455	51 086 005
General expenses		47 308 449	9 190 533	(4 163 455)	52 335 527
Net effect on surplus for the year		283 433 983	23 548 490	-	306 982 473

Controlling entity - 2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Depreciation, amortisation and impairment		37 751 156	(372 636)	-	37 378 520
Repairs and maintenance		70 857 085	4 370 475	-	75 227 560
Bulk purchases		80 929 566	9 864 500	-	90 794 066
Contracted services		23 264 678	495 618	4 163 455	27 923 751
General expenditure		51 034 818	9 190 533	(4 163 455)	56 061 896
Surplus for the year		263 837 303	23 548 490	-	287 385 793

Umkhanyakude District Municipality and its Municipal entity

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35. Unauthorised expenditure

Opening balance	251 279 815	213 475 910	251 279 815	213 475 910
Add: Unauthorised expenditure - Current year	18 279 811	72 731 586	18 279 811	72 731 586
Less: Unauthorised expenditure written off prior year	-	(34 927 681)	-	(34 927 681)
	269 559 626	251 279 815	269 559 626	251 279 815

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget. No disciplinary actions or criminal proceedings were instituted due to reasons provided on Appendix A.

Refer to Appendix A for the comparison of actual versus budgeted expenditure.

36. Fruitless and wasteful expenditure

Opening balance	9 537 673	8 971 561	9 326 418	8 845 136
Add: Fruitless and wasteful expenditure - Current year	37 820 886	566 112	37 730 370	481 282
	47 358 559	9 537 673	47 056 788	9 326 418

Fruitless and wasteful expenditure comprised interest and penalties relating to SARS EMP declarations and late payment of creditors.

Current year fruitless expenditure also includes infrastructure expenditure that was incurred in prior years but could not be identified where the work was done (R33 450 241 refer to note 8) and inventory that was written off as unaccounted for after stock (R4 019 703 refer to note 30 and 38).

No disciplinary actions or criminal proceedings were instituted as a result of fruitless expenditure incurred.

37. Irregular expenditure

Opening balance	420 000 812	367 995 469	1 602 540 225	1 550 748 518
Add: Irregular Expenditure - prior year contracts	204 936 888	-	204 936 888	-
Add: Irregular Expenditure - current year contracts	27 228 384	111 600 764	27 110 721	111 387 128
Less: Irregular expenditure written off prior year contracts	(194 120 923)	(59 595 421)	(194 120 923)	(59 595 421)
Less: Irregular expenditure written off current year	(17 446 050)	-	(17 446 050)	-
	440 599 111	420 000 812	1 623 020 861	1 602 540 225

Irregular expenditure written off in the current and prior year relates to expenditure from the contracts that were concluded in prior years and the irregularity of these contracts was investigated in 2016 financial year. Submission of the investigation was submitted to Council in 2016 financial year and value for money was identified and it was approved for write off.

No further investigation was conducted in 2017 and 2018 financial years but the list of the expenditure and the projects was submitted to council, and based on the fact that this expenditure was incurred on same contracts investigated in 2015, Council approved the write off in 2017 and 2018 financial years. Therefore no proper investigation was conducted in 2017 and 2018 financial years.

Prior year amounts were restated to effect this write off.

Irregular, fruitless and wasteful expenditure relating to contravention of SCM regulations and MFMA incurred during 207 and 2018 financial years will be investigated by MPAC. Based on the findings of such investigations, a recommendation to recover or write off in terms of s32(2)(b) of the MFMA will be tabled to council for decision.

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Consolidated Annual Financial Statements for the year ended 30 June 2018

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38. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Opening balance	28 198 445	28 198 445	28 198 445	28 198 445
Add: Material losses - Current year	4 019 703	-	3 734 059	-
	32 218 148	28 198 445	31 932 504	28 198 445

Inventory losses were as a result of water pipe movements which could not be accounted and were included in general expenses.

Audit fees

Opening balance	19 797	34 753	46 958	-
Current year subscription / fee	3 611 607	3 879 109	3 230 547	3 463 422
Amount paid - current year	(3 564 649)	(3 859 312)	(3 197 191)	(3 416 464)
Amount paid - previous years	(19 797)	(34 753)	(46 958)	-
	46 958	19 797	33 356	46 958

PAYE and UIF

Opening balance	2 715 090	2 193 973	2 768 137	1 483 426
Current year subscription / fee	23 483 040	23 464 423	22 189 246	22 276 377
Amount paid - current year	(23 363 924)	(21 727 176)	(22 189 246)	(19 508 240)
Amount paid - previous years	(2 715 090)	(1 216 130)	(2 768 137)	(1 483 426)
	119 116	2 715 090	-	2 768 137

Pension and Medical Aid Deductions

Opening balance	2 366 534	4 095 467	2 366 534	4 095 467
Current year subscription / fee	31 740 244	29 781 655	30 100 474	28 298 100
Amount paid - current year	(31 795 524)	(27 415 121)	(30 100 474)	(25 931 566)
Amount paid - previous years	(2 366 534)	(4 095 467)	(2 366 534)	(4 095 467)
	(55 280)	2 366 534	-	2 366 534

SALGA Fees

SALGA fees paid	1 665 784	1 271 884	1 665 784	1 271 884
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VAT

VAT receivable	36 695 943	62 977 240	32 476 454	62 073 305
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VAT output payables and VAT input receivables are shown in note .

All VAT returns were submitted in time throughout the year.

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
39. Commitments				
Authorised capital expenditure				
Approved and contracted for				
• Infrastructure	349 785 882	373 649 636	342 363 451	373 649 636
• Scholl nutrition project	-	10 629 754	-	-
	349 785 882	384 279 390	342 363 451	373 649 636
Total capital commitments				
Approved and contracted for	349 785 882	384 279 390	342 363 451	373 649 636
Authorised operational expenditure				
Approved and contracted for				
• Operating expenditure	339 236 034	43 260 391	339 236 034	43 260 391
Total operational commitments				
Approved and contracted for	339 236 034	43 260 391	339 236 034	43 260 391
Total commitments				
Total commitments				
Authorised capital expenditure	349 785 882	384 279 390	342 363 451	373 649 636
Authorised operational expenditure	339 236 034	43 260 391	339 236 034	43 260 391
	689 021 916	427 539 781	681 599 485	416 910 027
Operating leases - as lessee (expense)				
Minimum lease payments due				
- within one year	946 995	925 635	898 092	876 732
- in second to fifth year inclusive	146 555	1 031 590	97 652	982 687
	1 093 550	1 957 225	995 744	1 859 419

40. Contingencies

Disciplinary matters

As at 30 June 2018, the municipality had pending employee related disciplinary matters. Should the outcome of both matters favour respective claimants, the municipality may be liable for compensation of up to R1 252 572.

Supplier disagreements

During the year ended 30 June 2018, suppliers claimed to have provided the municipality with services from which the outstanding amounts claimed as per creditors confirmations is higher than what the Municipality is aware of. The total amount above the invoices recognised by the Municipality amount to R8 739 804.

The municipality also has pending court cases with suppliers. Should the municipality lose all the cases, it may be liable for a total of R 50 437 581.

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

41. Related parties

Relationships

Umhloosinga Development Agency

Umhloosinga Development Agency is a municipal entity under the control of Umkhanyakude District Municipality to spearhead the economic development within the District.

Related party balances

Payables owing to related parties

Umhloosinga Development Agency	(9 293 222)	(5 030 158)
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Related party transactions

Transfers paid to related parties

Umhloosinga Development Agency	11 097 094	5 558 077
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42. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 30 June 2018 and the date when the annual financial statements were authorised.

43. Risk management

Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

The economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the economic entity's financial performance.

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

43. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments

The economic entity's risk to liquidity is a result of the funds available to cover future commitments. The economic entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Economic entity

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	851 724	858 722	2 623 132	1 873 244
Interest accrual on long term loan	134 403	-	-	-
Payables from exchange transactions	215 753 034	10 800 901	11 353 495	-
Consumer deposits	1 396 340	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	844 512	851 724	2 599 119	2 756 644
Interest accrual on long term loan	158 800	-	-	-
Payables from exchange transactions	322 669 989	-	-	-
Consumer deposits	1 377 510	-	-	-

Controlling entity

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	851 724	858 722	2 623 132	1 873 244
Interest accrual on long term loan	134 403	-	-	-
Payables from exchange transactions	216 851 320	10 800 901	11 353 495	-
Consumer deposits	1 396 340	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	844 512	851 712	2 599 119	2 756 644
Interest accrual on long term loan	158 800	-	-	-
Payables from exchange transactions	320 920 314	-	-	-
Consumer deposits	1 377 510	-	-	-

Umkhanyakude District Municipality and its Municipal entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017

43. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The economic entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The investments are diversified among the reputable commercial banks.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The consumer debtors are settled on a monthly basis. Upon the new connections the consumers paid deposit in advance.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	Economic entity - 2018	Economic entity - 2017	Controlling entity - 2018	Controlling entity - 2017
Receivables from exchange transactions	45 461 654	63 797 512	43 685 489	55 864 451
Other receivables from exchange transactions	6 685 279	8 554 956	6 685 279	8 554 956

Market risk

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings from DBSA.

At year end, financial instruments exposed to interest rate risk were as follows:

- Loan from Development Bank of South Africa.
- FNB Bank Call deposits.
- FNB Bank, ABSA and Ithala Bank Notice deposits.

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the consolidated annual financial statements.

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2018, deviations from Municipal Supply Chain Management Regulations amounted to R75 612 840.

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Figures in Rand	Economic entity		Controlling entity	
	2018	2017	2018	2017
45. Distribution losses				
Electricity distribution losses	10 375 145	9 950 568	10 375 145	9 950 568
Electricity distribution loss calculated as:				
Electricity purchases	11 359 043	16 469 360	11 456 649	15 359 979
Less: Electricity sales	(3 639 554)	(6 094 215)	(4 701 621)	(5 409 411)
	7 719 489	10 375 145	6 755 028	9 950 568
Water distribution loss calculated as:				
	2018	2017		
	Kl	Rand	Kl*	Rand
	3 560 416	16 057 475	6 218 683	30 382 985

46. Going concern

As at 30 June 2017, the economic entity had accumulated surplus of R 1 963 292 771 (Controlling entity R1 926 506 737), and the municipality's current assets exceeds its current liabilities by R 29 000 526 (Controlling entity R 20 804 462).

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the economic entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the economic entity.

47. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

48. Actual capital expenditure versus budgeted capital expenditure

Capital expenditure	Original budget	Adjustment	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
	257 964 500	36 001 312	293 965 812	206 443 570	87 522 242

R294 million was budgeted for capital expenditure for 2017/18, however, actual expenditure reported per Note 8 was below the final budget by approximately 29,77%.